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SUBJECT: VIETNAM'S MOBILE PHONE SECTOR SHOWS STRONG GROWTH; ADVANCES
EQUITIZATION PLANS

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REF: A) Hanoi 1451 B) Hanoi 2477

¶1. (SBU) Summary: Vietnam is the world's second fastest growing telecommunications market behind China. Mobile phone subscribers in Vietnam are reported to now stand at 17 million, a 70 percent increase over December 2005. Military-owned Viettel Mobile, with more than five million subscribers, is the first true competitor to MobiFone and Vinaphone, the two mobile subsidiaries of state-owned telecom giant and former monopoly Vietnam Post and Telecommunications Group (VNPT). Hanoi Telecom will become Vietnam's sixth and newest mobile service provider by the end of ¶2006. The Ministry of Posts and Telematics (MPT) is moving forward with plans to equitize the three largest mobile service providers in 2007, though delays in issuing guiding regulations may cause the timeframe to slip. While Vietnam's mobile sector is an attractive market for foreign investors, the issues of continued State control of mobile companies and the lack of an independent telecom regulator remain. End Summary.

Rapid Mobile Phone Growth

¶2. (U) Vietnam is the world's second fastest growing telecommunications market behind China. Vietnamese telecommunication service companies reported that as of the end of September, Vietnam has more than 17 million mobile phone subscribers, up from 10 million subscribers in December 2005 and twice the number from the same time last year. Observers believe that mobile phone service companies could attract a total of 10 million new subscribers in 2006. Competition among service providers has increased, and usage fees for customers have fallen as the major service providers each scramble to capture a larger share of this expanding market.

Increased Competition

¶3. (SBU) Viettel Mobile, the telecom subsidiary of military-owned Viettel Corp., announced in early October that its customer base numbered more than five million as of two years after its founding. Viettel Deputy General Director Le Dang Dzong informed EconOff that Viettel aims to double this number to 10 million in 2007. The mobile firm is also expanding into foreign markets with ongoing operations in Cambodia, new services in Laos beginning in November and a pending operating license application in Burma, Dzong said. In conjunction with the November 16-19 APEC CEO Summit in Hanoi, Viettel entered an agreement with AT&T to link the two firms' telecom networks to support the growing number of multinational firms operating in Vietnam.

¶4. (SBU) Viettel's total of five million subscribers presents the first real competitive threat to MobiFone and Vinaphone, the mobile

phone subsidiaries of state-owned telecom giant and former monopoly VNPT. MobiFone and Vinaphone have almost six million and five million subscribers, respectively. Dzung believes that Viettel's size has forced MobiFone and Vinaphone to improve their competitive practices vis-à-vis Viettel, including improved interconnection services between mobile networks. Comment: A much publicized interconnection dispute between VNPT and EVN Telecom this past summer (reftel B) indicates that VNPT's mobile subsidiaries have not yet extended this treatment to all competitors. Vietnamese media is reporting that VNPT contractually committed to provide better connectivity and capacity to its competitors in early December. Post will monitor VNPT's adherence to this agreement. End Comment.

¶5. (SBU) The newest market entrant, Hanoi Telecom, recently announced it would launch its HT Mobile service by the end of 2006. The company, a joint venture between Hanoi Telecom and Luxembourg's Hutchison Telecom, will offer CDMA2000 technology-based mobile services using Nortel-provided infrastructure. During the recent APEC CEO Summit, Hanoi Telecom signed a memorandum of understanding (MoU) with China's Unicom to share CDMA technology and products related to value-added services. Following months of marketing, Hanoi Telecom has attracted significant buzz among many of Hanoi's youth, as evidenced by the frequent crowds of curious shoppers outside the company's brand new building in Hanoi. Hanoi Telecom has set a target of 2.9 million subscribers in its first 5-10 years. This modest target is likely based on the tepid performance of the market's two other CDMA-based service providers, S-Fone (one million subscribers), and EVN Telecom (850,000 subscribers).

Equitization Moving Forward

¶6. (U) Amidst the strong growth and increased competition in the mobile phone sector, Deputy Minister of Posts and Telematics (MPT)

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Tran Duc Lai announced in October that plans to equitize MobiFone, Vinaphone and Viettel are moving forward. MobiFone, the first company to equitize, expects to complete its equitization plans by the end of 2006 and go public at some (unspecified) point next year.

Vinaphone and Viettel expect to complete their plans early next year and go public before the end of 2007. Foreign investors such as France Telecom, Comvik (Sweden), Telenor (Norway) and several British companies have all shown interest in the Vietnamese mobile telephone market, particularly in MobiFone's equitization plans.

¶7. (SBU) The equitization process aims to reduce the State's investment burden, develop a more competitive environment and attract foreign technologies and management skills. The State will continue to hold a controlling stake in each of the firms. Viettel's Dzung estimated that his firm's equitization would occur "mid-2007." (Note: MPT contacts suggest that this target may be optimistic given that Viettel has yet to submit any documentation to the relevant authorities. End Note.) Viettel intends to sell 20-25 percent of its equities to a foreign strategic partner, 10-15 percent to company employees and 10-15 percent in an IPO, with the remaining 51 percent controlled by the military. The entire equitization timeline in the mobile sector may be pushed back, however, due to Government of Vietnam (GVN) delays in issuing implementing decrees necessary to complete the asset evaluation process. MPT's Lai was quoted in the press as saying that the delays are due to the complex nature of a mobile network's asset evaluation, which includes hard-to-value assets such as trademark issues and frequency allocation.

¶8. (SBU) Comment: Higher levels of disposable income have enabled more Vietnamese consumers to afford mobile phone services. This growing market has attracted the interest of potential foreign investors. The GVN decision to equitize the three largest mobile firms presents an opportunity for international telecom providers to enter this market of nearly 84 million people. Two factors, however, may put a damper on foreign investor enthusiasm: the State's continuing controlling interest in the equitized mobile telecom firms and the lack of an independent telecom regulator. End Comment.

